LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6557 | **NOTE PREPARED:** Feb 25, 2005
BILL NUMBER: HB 1097 | **BILL AMENDED:** Jan 24, 2005

SUBJECT: Property tax assessment of computer software.

FIRST AUTHOR: Rep. Borror | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Ford

FUNDS AFFECTED: **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) *Software Assessment:* This bill establishes fair market value as the amount that must be deducted whenever the value of computer application software is allowed to be deducted from the true tax value of tangible personal property.

It provides that the rules of the Department of Local Government Finance must require the use of nationally recognized valuation guides when determining the true tax value of mobile homes that are not assessed as real property.

Effective Date: January 1, 2006.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base caused by the treatment of software assets or mobile homes in this bill will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Software Assessment:* Under current Department of Local Government Finance (DLGF) assessment rules, computer application software owned by a business is assessed as business personal property. Beginning with taxes paid in 2007, computer application software would no longer be taxable for property tax purposes.

According to the DLGF, evidence gathered from field reviews and audits suggests that many taxpayers are not properly reporting software under current law and many counties have not pursued these taxpayers. Because of the low compliance rate, the true effect of the bill is unknown. However, there could certainly be an impact in specific local areas in cases where compliant taxpayers have large amounts of software assets or where the value of the software component of an asset accounts for a considerable portion of the asset's total cost.

The elimination of software assessed value would shift part of the property tax burden from the taxpayers who own software to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund. The amount of the tax shift is currently unknown.

Under the bill, the fair market value of the application software component of a depreciable asset would be deducted from the acquisition cost of the asset for assessment purposes.

Mobile Home Assessments: The current DLGF real property assessment rule contains cost and depreciation schedules for use in the assessment of mobile homes. A mobile home is assessed as either real property if the homeowner owns the land under the home or if the home is on a permanent foundation. All others are assessed as personal property. Most mobile homes are assessed as personal property. The schedules in the real property rule are used to assess both real and personal property mobile homes.

This bill would require the DLGF's rules to include instructions for determining sales data for mobile homes that include a requirement to use nationally recognized valuation guides. Some counties are already using these guides (commonly referred to as the "blue book) in assessing mobile homes. Some counties allow the blue book value to be used as evidence in an appeal. Other counties adhere strictly to the schedules in the real property assessment manual and do not consider blue book values at all.

It is generally understood that the blue book values are less than those produced by the assessment manual. While the assessments of some homes would not change, others would be reduced under the blue book. It is unlikely that any home values would increase. One estimate suggests that, on average, the blue book value on mobile homes is about 15% lower than the value under the assessment rule.

This means that in counties where the blue book value is not already being used, the total value of mobile homes could decline by as much as 15%. Normally, a reduction in assessed value would shift taxes from those receiving the reduced assessments to all other taxpayers through an increased tax rate. However, mobile home assessments are treated differently than all other property assessments.

It is understood that in most counties, assessments on personal property mobile homes are not considered part of the certified value that is used to compute tax rates. This has to do with the fact that the assessment date for these homes is January 15th with taxes paid in May and November of the same year. Tax rates must be certified by February 15th, leaving little or no time to make the assessments and include them in the AV base.

The property tax revenue generated by mobile homes may be used to offset shortages in levy collections. While the tax rate would not be directly affected by an assessment reduction for mobile homes, the revenue received by the local units would be reduced. One exception to this explanation is the case where a unit collects more than 100% of its tax levy. In this case, the overage is used to reduce the following year's levy and tax rate. So, it is possible, indirectly, for a reduction in mobile home-generated tax collections to cause an increase in the following year's tax rate. The actual impact of this provision is not currently available. There are approximately 90,000 to 100,000 mobile homes in the state.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Township and county assessors.

Information Sources: Kurt Barrow, Assessment Director, Department of Local Government Finance (232-3777); Lori Harmon, Assistant Assessment Director, DLGF (232-3777).

Fiscal Analyst: Chuck Mayfield, 317-232-4825; Bob Sigalow, 317-232-9859.